



# WEEKLY ECONOMIC DIGEST

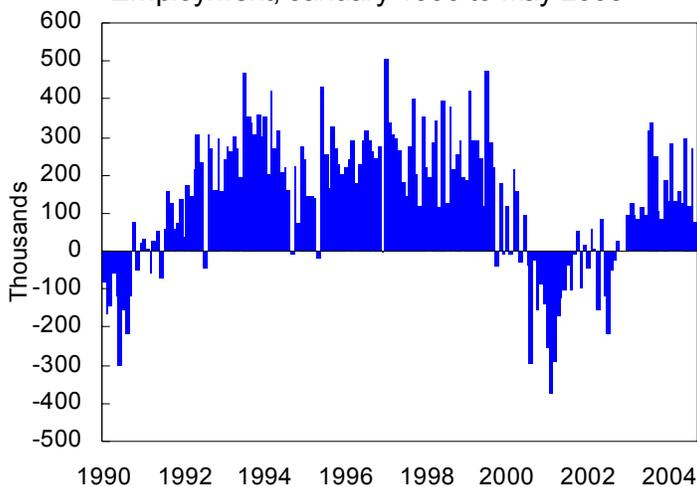


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

June 7, 2005

## Jobs Recovery Stumbles Again

Monthly Change in Nonfarm Payroll Employment, January 1990 to May 2005



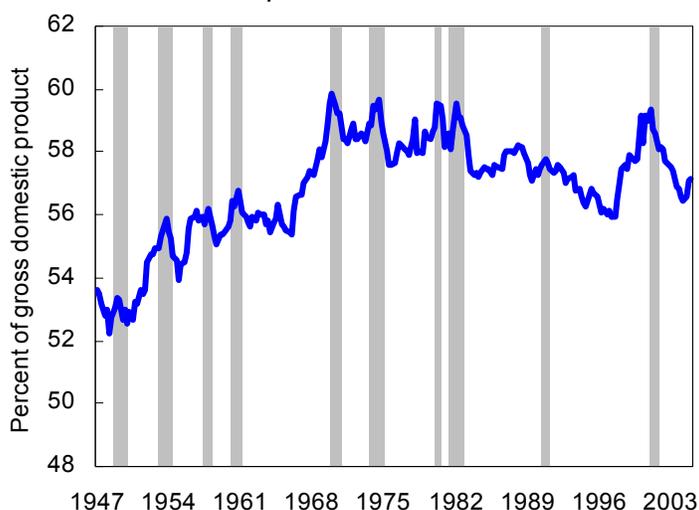
- **Job growth was far below expectations in May.** Total nonfarm payroll employment grew by only 78,000 jobs last month, less than half of what financial markets were expecting (see top chart). May's slow growth followed a gain of 274,000 jobs in April. That two-month average (176,000 jobs per month) is just under the trend for the preceding 12 months.

- **Unemployment declined slightly.** The civilian unemployment rate edged down to 5.1 percent in May. That slight decline reflected increases of 0.1 percentage point in both the fraction of the population in the labor force (those working or looking for work) and civilian employment as a fraction of the population. However, both those measures remain well below their levels at the start of the recession in March 2001.

- **First-quarter economic growth was revised upward.** Real (inflation-adjusted) gross domestic product (GDP) grew at an annualized rate of 3.5 percent in the first quarter, according to the latest estimate by the Department of Commerce. That upward revision from the advance estimate of 3.1 percent reflected a trade deficit that was not quite so large as was originally assumed.

- **Hourly compensation rose much faster than first thought.** Real (inflation-adjusted) hourly labor compensation in nonfarm businesses, a measure that includes both wages and nonwage benefits rose at an average annual rate of 5.1 percent over the past two quarters—well above the original estimate of 1.3 percent, according to revised estimates from the Labor Department. Nevertheless, employee compensation remains near recent lows as a share of GDP (see lower chart), because productivity growth in the past several years has boosted profits much more than compensation. To the extent that higher labor costs can be absorbed out of profits, they need not be inflationary.

Compensation of Labor



Note: Gray areas indicate periods of recession as defined by the National Bureau of Economic Research.

The Economy at a Glance	May	Apr	Mar	Feb	2005 Qtr 1	2004 Qtr 4	2004 Qtr 3	2004 Qtr 2	2004	2003
<b>Economic Activity</b>										
Real GDP (% growth)	—	—	—	—	3.5	3.8	4.0	3.3	4.4	3.0
Industrial Production (% growth)	n.a.	-2.4	1.2	6.2	3.6	4.5	2.7	4.3	4.2	0
Capacity Utilization (level, %)	n.a.	79.2	79.4	79.4	79.3	78.8	78.2	77.9	78.1	75.5
Civilian Unemployment Rate (level, %)	5.1	5.2	5.2	5.4	5.3	5.4	5.5	5.6	5.5	6.0
Housing Starts (thousands)	n.a.	2038	1836	2228	2084	1973	1974	1923	1950	1854
Real Disposable Personal Income (% growth)	n.a.	1.0	-0.2	1.9	3.3 <sup>#</sup>	6.0 <sup>#</sup>	2.9	2.8	3.4 <sup>#</sup>	2.3
Retail Sales (% growth)*	n.a.	18.0	4.3	8.1	6.0	10.2	6.4	6.6	7.3	4.3
Personal Saving Rate (level, %)	n.a.	0.4	0.5	0.9	0.9	1.1 <sup>#</sup>	0.7	1.3	1.0 <sup>#</sup>	1.4
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	n.a.	6.2	7.4	4.9	2.4	3.6	1.6	4.4	2.7	2.3
Core CPI-U Inflation (% growth)	n.a.	0	4.9	3.7	2.6	2.3	1.7	2.6	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.4	3.2	4.1	3.6	3.9	4.0
Output per Hour (% growth)	—	—	—	—	2.9	2.3	0.9	4.1	4.0	4.3
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	2.84	2.78	2.74	2.54	2.54	2.01	1.49	1.08	1.37	1.01
T-note Rate, 10-years (level, %)	4.14	4.34	4.50	4.17	4.30	4.17	4.30	4.60	4.27	4.01
Federal Funds Rate (level, %)	3.00	2.79	2.63	2.50	2.47	1.95	1.43	1.01	1.35	1.13
Dow Jones Industrial Avg (index level)	10377	10283	10682	10724	10648	10362	10130	10289	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

\* Subject to revision over the next week.

# Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

### Upcoming Economic Releases:

- **U.S. Import and Export Price Indexes: May 2005** [Release: Friday, June 10]
- **U.S. International Trade in Goods and Services: April 2005** [Release: Friday, June 10]
- **Monthly Treasury Statement of Receipts and Outlays of the U.S. Government: May 2005** [Release: Friday, June 10]
- **Advance Monthly Sales for Retail and Food Services: May 2005** [Release: Tuesday, June 14]